

VZCZCXRO3442  
RR RUEHLH RUEHPW  
DE RUEHIL #2470 2041554  
ZNR UUUUU ZZH  
R 221554Z JUL 08  
FM AMEMBASSY ISLAMABAD  
TO RUEHC/SECSTATE WASHDC 7900  
INFO RUEHRC/DEPT OF AGRICULTURE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHRC/USDA FAS WASHDC 4253  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL  
RHMFISS/CDR USCENTCOM MACDILL AFB FL  
RUEKJCS/SECDEF WASHINGTON DC  
RUEHKP/AMCONSUL KARACHI 0072  
RUEHLH/AMCONSUL LAHORE 5816  
RUEHPW/AMCONSUL PESHAWAR 4595  
RUEHNE/AMEMBASSY NEW DELHI 3557

UNCLAS ISLAMABAD 002470

SENSITIVE

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EAID](#) [EFIN](#) [ENGY](#) [PK](#)

SUBJECT: ECONOMY CONTINUES DOWNWARD SPIRAL AND FUEL PRICE HIKES  
SPARK PROTESTS

¶1. (U) Summary: Pakistan's major economic indicators continue to trend downwards with the current account deficit reaching a record high, foreign investment dropping significantly and speculative stock exchange trading causing price volatility and investor losses. On July 21, the GOP implemented a 14 percent price hike on fuel, leading to a transporters strike which crippled Karachi. End Summary.

-----  
ECONOMY  
-----

¶2. (U) Current Account Deficit Reaches a Record Level: Pakistan's current account deficit has widened by 103.7 percent to USD 14 billion and reached 9.4 percent of GDP in the FY 2008, mainly due to a large increase in the trade deficit and slow foreign inflows. The current account deficit exceeded the GOP target of 5 percent of GDP by a wide margin and is also higher than the State Bank of Pakistan's (SBP) projection of 7.8 percent of GDP in FY2008.

¶3. (U) Foreign Investment Declines by 38 percent in 2008: Net foreign investment decreased by 38.4 percent to USD 5.19 billion in FY 2008 from USD 8.42 billion the previous year due to a massive drop in portfolio investment. The portfolio investment dropped by 98.8 percent to USD 40.1 million in FY2008 from a high of USD 3.28 billion in FY2007.

¶4. (U) SBP Governor Says Karachi Stock Exchange (KSE) Trading Largely Speculative: The KSE 100 index, which stood at 1,520 points, with total market capitalization of Rs. 394 billion (USD 5.54 billion) in FY 2000, reached the level of 15,676.34 points by April 18, 2008, with total market capitalization of Rs. 4,790.98 billion (USD 67.4 billion). The KSE 100 Index has since dropped significantly and currently stands at 10679.43 points. The Governor of the State Bank of Pakistan, Dr Shamshad Akhtar, remarked that the Pakistani equity market lacks depth and continues to be small and narrow with high price volatility and speculative trading. Akhtar further stated that listed commercial banks constitute around 26.5 percent of the KSE-100 index and are major drivers of growth in market volumes.

-----  
ENERGY  
-----

¶5. (U) Petroleum Price Increase: On July 20 the Government of Pakistan (GOP) announced an immediate 14 percent petroleum price hike to Rs 86.66 per liter, a 17 percent price hike for diesel to Rs

64.64 per liter and a 16 percent price hike for kerosene oil to Rs 58.37. With four price increases since April, the coalition government has increased local prices by 32 percent. The GOP noted that the increases were necessary to move domestic prices to closer parity with international fuel prices and to reduce the subsidies burden on the government by Rs 4 - 5 billion (USD 57 - 71 million).

¶6. (U) Transporters Strike: Media reports that transporters in Karachi went on strike on July 22 and kept over 20,000 buses and vans from providing service to Karachi's 15 million residents. Transporters in Islamabad and Rawalpindi plan to strike on July 24 if they are not allowed to raise fares. The majority of citizens in Pakistan rely upon private transporters for commuting to work. While the state owned domestic refineries and distribution intermediaries are making windfall gains in the wake of rising oil prices, Pakistani consumers and private transporters are struggling to survive.

¶7. (SBU) Comment: With current expenditures of USD 552 million per month on fuel subsidies, the GOP must continue to increase domestic prices regardless of how unpopular these measures are with the public. As the economy continues to spiral downward, the GOP lacks a coherent strategy to halt the economic freefall and investors continue to flee. End Comment.